



Notes of Explanation to Accompany Cash Flow Projections

1. We make every attempt to make these projections as conservative as possible, as the following notes demonstrate.
2. The “price” listed is a “charter ready” price and is designed to include everything necessary to equip your vessel for bareboat charter service. It also includes such significant cost items as tender/outboard, davits, cabin heat, chart plotter/radar and galleyware. (Nothing you wouldn’t want on a privately kept vessel.)
3. The interest rate shown is based on general market quotes at the time this projection was prepared. The rate depends upon economic conditions and will vary between lending institutions. The standard boat loan is 20% down, 20-year term, and a fixed rate. However, different down payments and varying terms are often available. (Most boats going into charter service are financed through Peoples Bank here in the Pacific Northwest. They typically have the lowest fixed interest rates, and have no restrictions on charter.)
4. We try to calculate charter weeks conservatively. For example, the “average” we normally use is based on a “historic average” for vessels similar in size and charter rate. The average is calculated over a 5-year horizon in charter service. The longer in charter, the more repeat guests...and, thus, the more total charters in future years. Boats in charter typically get 75% of their eventual average in season 1, 90% in season 2, hit their average in season 3, then beat their average thereafter.
5. The weekly charter rate listed is a “conservative” rate and excludes future 3-5% annual increases. Rates are developed through a market study of competitive rates at other charter companies for similar vessels.
6. Projected maintenance costs may seem high. These are not mandated costs paid to us; in fact, you will not pay American Tug Charters for any maintenance, since we are just in the charter business, not the maintenance or repair business. (We do, however, act as your advocate to help you obtain the best professional maintenance and repair at the least cost from pre-screened independent contractors.) The maintenance estimate assures that all key maintenance tasks are done professionally. Your participation can lower the costs. It also includes cosmetic upkeep and a set-aside for such things as eventual replacement of upholstery, Plexiglas, canvas and an eventual engine overhaul. (The average monthly maintenance cost is approx. 50/50 parts and labor and is based on the owner doing about 15% of the required preventive maintenance tasks on their boat each year, which we find most owner like to do. But all the “turnaround” service and minor repairs between charters are done by the owner’s maintenance professional. So the monthly maintenance cost figure on the cash flow projection represents about 85% of all labor costs and 100% of the cost of parts, or 90-95% of overall maintenance costs for the year, divided by 12 months.) If you’d like your maintenance professional to do 100% of your maintenance, add approx. \$150 to the average monthly maintenance cost.
7. “Consumables / Park Pass / Discounts” (\$150-\$250/month average) includes a \$600 annual contribution to the Owners Consumables Fund from which annually and periodically replaced items (e.g. mildewed life vests, faded Life Sling covers, worn linens and towels inventories, plus laundry services) are funded. An annual State Park Pass is required (cost varies somewhat depending on vessel length) and is included at approx. \$100 annually. About half of the charters will be booked by previous charter guests of American Tug Charters or San Juan Yachting. If in good standing, they receive “5% Off” the weekly charter rate and both the charter company and the vessel owner participate in absorbing this discount.
8. The second home deduction assumes that you do not have a land-based second home for which you are deducting interest payments. It also assumes a 25% income tax bracket and is calculated for the average of your first 5 years of ownership. Higher tax brackets will have greater benefit. The “cash value” of the tax deduction assumes approximately 85% of payments are composed of interest during the first few years of the loan. The formula is the monthly payment x 85% x 25%. The deduction applies whether or not you place the vessel in charter. If not a second home deduction, interest on the loan becomes a business expense which also has tax benefits for you.
9. There may also be depreciation tax advantages if your involvement qualifies for “active” tax classification. Please see your tax advisor. (Or ask us for a recommended CPA who is a specialist.)
10. Insurance rates are for our fleet insurance policy not only covering you, but your charter guests also.
11. No sales tax is due on a vessel purchased and placed directly into bareboat charter service. However, when you use your boat for pleasure, you’ll pay a daily sales tax on the value of each charter day (just the same as your charter guests do.) Sales tax is due on the depreciated or surveyed value (whichever is lower) if the vessel is ever removed from charter. If you sell your vessel while in charter, the next buyer (not you) will pay sales tax (unless the new owner keeps the vessel in bareboat charter service).
12. The state charges 0.5% of the boat’s depreciating value as Washington State Excise Tax. This annual tax applies whether a vessel is in charter or not. A USCG documented vessel will pay slightly less (0.47%) in the form of Washington State Property Tax. We recommend USCG documentation.